



# Availability Payment Mechanisms For Transit Projects

ADVISORY

# Agenda

- **Availability Payments**
  - Overview
  - Structure
  - Financial Implications
- **Case Study**
- **Additional Considerations**
- **KPMG Infrastructure**

# What is an Availability Payment Agreement?

- Long-term agreement with fixed periodic payments to Private Sector partner for DBFOM of facilities and services
- Unlike a full concession, the scope of services for the Private Sector would not include:
  - Ridership and demand risks
  - Fare collection

**Availability Payments provide an alternative, flexible way to allocate project risks**

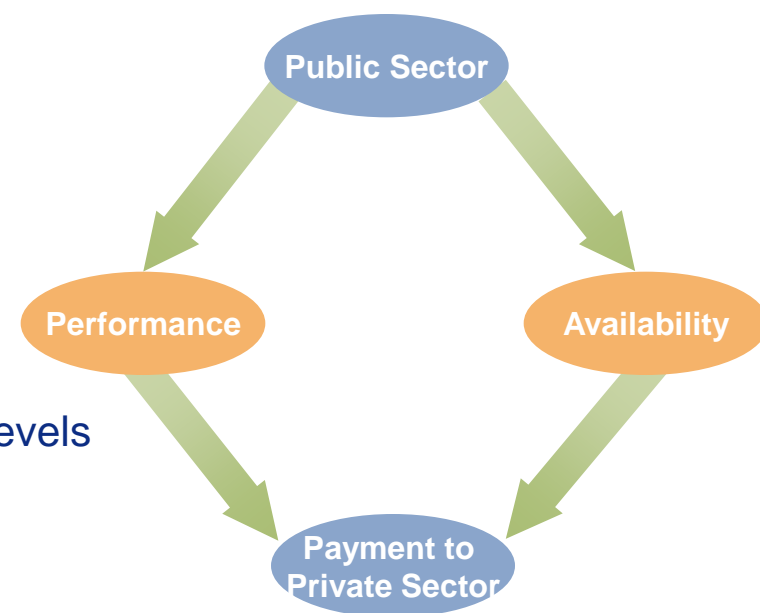
	Design	Construction	Operations	Maintenance	Financing	Ridership	Collection
Design Build Bid	○	○	○	○	○	○	○
Design Build/Maintain	●	●	○	○	○	○	○
Design Build Operate/Maintain	●	●	●	●	○	○	○
Design Build Finance Operate (Availability Payment)	●	●	●	●	●	○	○
Design Build Finance Operate (Real User Fee)	●	●	●	●	●	●	●

○ - Responsibility of the Public Sector

● - Responsibility of the Private Sector

# How do Availability Payments work?

- Public sponsor pays the private partner a pre-established, maximum periodic payment for DBFOM of project facilities
- Payments typically do not begin until the facility is completed and commences operations
- Availability Payments compensate private partner for both capital and operating costs
  - Lenders will also monitor private sector performance
- Private partner is evaluated each period on
  - Availability of facilities and services
  - Performance of private sector partner
- Each periodic payment is adjusted to reflect
  - Deductions for non-compliance with pre-established service levels
  - Credits for enhanced performance



# Follow the money...

- **Funding to the Public Sponsor**
  - Farebox revenue
  - General tax revenue allocation
  - TIFs and TODs
  - Grants, other intergovernmental transfers
- **Public Sponsor makes availability payments to Private Partner**
- **Private Partner finances (debt and equity) against payment stream**
- **“Funding is not the same as financing”**

# Availability structures are widely utilized

## Recent examples include:

- Port of Miami Tunnel, Florida
- I-595, Florida
- Golden Ears Bridge, Vancouver, Canada
- Sea-to-Sky Highway, British Columbia, Canada
- Trans Canada Highway, New Brunswick, Canada
- Ostregion Roads, Austria
- Alberta Schools, Canada
- A13 Thames Gateway, London, UK
- A92, Scotland

# Key Benefits

## Challenges

- Project lacks stand-alone financial viability
- Public Sector specific policy requirements
  - Fare affordability
  - Competing facilities
  - Control over operating and safety standards
- Public Sector needs to control project cost exposure

## Benefits

- Allows use of PPP model and reduces project risk profile
- Public Sponsor retains control over user fees
- Provisions against competing facilities are not necessary
- Performance Requirements allow Public Sponsor to control operating outputs
- Payments do not start until facilities are completed and operating
- Public Sponsor's total payment obligation is capped

# Key Benefits (con't)

## Challenges

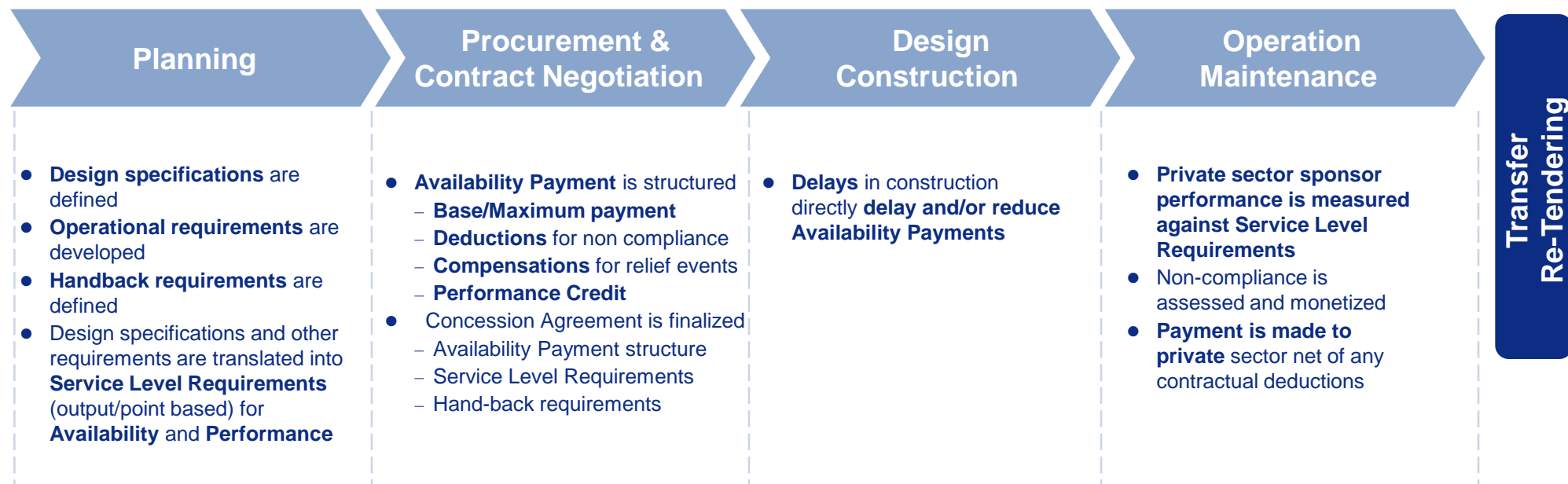
- Public concerns over long term concession projects
- Need to attract robust competition from private bidders
- PPP approach needs to provide Value for Money in transferring risk to Private Sector

## Benefits

- Availability structures make shorter contract periods more feasible
- Availability deals tend to attract a wider group of investors and contractors
- Encourages whole life approach to design, construction and operations
- Economic drivers are more within the control of the private developer

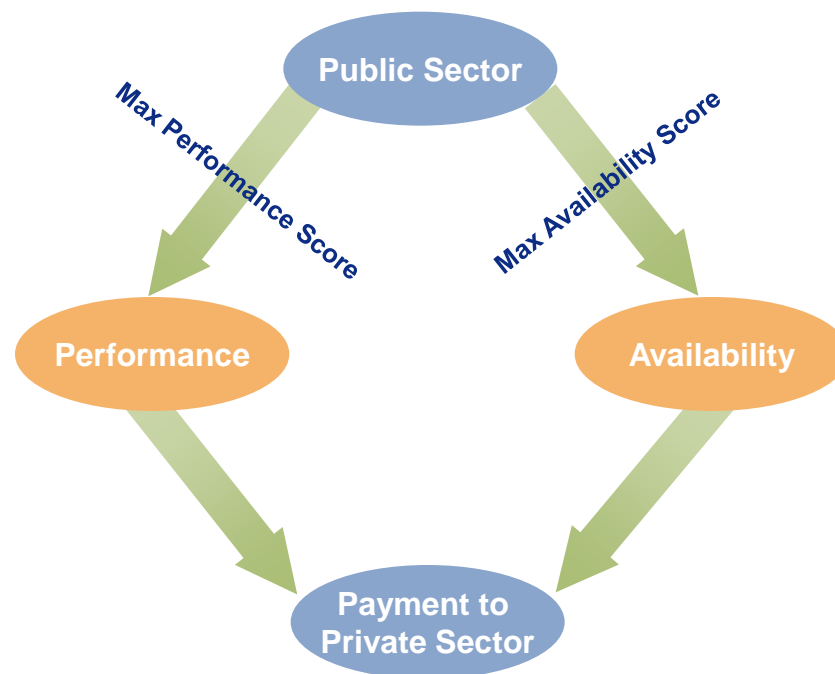


# Developing and Implementing



**Provisions associated with asset hand-back must be included to ensure the private sector is incentivized to fulfill the obligations of the agreement at the end of the term of the concession**

# Evaluation Metrics



## Performance Metrics

- Security
- Response to emergencies
- Lighting and cleanliness
- Customer satisfaction
- Staff morale

*Depending on severity of performance deficiencies, non compliance with agreed metrics can result in non-availability of facilities*



## Availability Metrics

- Availability of facilities
- Availability of services
- Safety
- Condition of the assets

# Financing Implications

- **The project risk profile for Availability Payment-based agreements is typically lower when compared with full concession structures**
  - Project cash flow may receive higher credit ratings as it is based on
    - Public sponsor credit rating
    - Private partner ability to meet requirements
  - Private Sector can achieve higher gearing, lower weighted average cost of capital (WACC)
- **Availability projects are typical shorter term (25 – 35 years) than full concessions (50+ years)**
  - Availability payments typically have been done with minimal debt “tails”
- **Availability structures are widely accepted by infrastructure developers**
  - Increased number of potential contractors and investors increases competition and generates efficiencies

# Financing Tools for Transit PPPs

- **Private Activity Bonds**

- Authorized under SAFETEA-LU
- Tax-exempt financing for projects with private involvement

- **Bank debt**

- Typically requires a “club” deal involving multiple lenders
- Current bank market is challenging: shorter tenors, higher pricing, less availability

- **TIFIA Loans (Transportation Infrastructure Finance and Innovation Act)**

- Flexible, long term loan program administered by US DOT
- Rates are competitive with tax-exempt debt

- **Equity**

- Higher cost, but willing to take risks other sources of capital will not
- Patient capital with long term investment horizon

# Case Study

## Dublin Metro

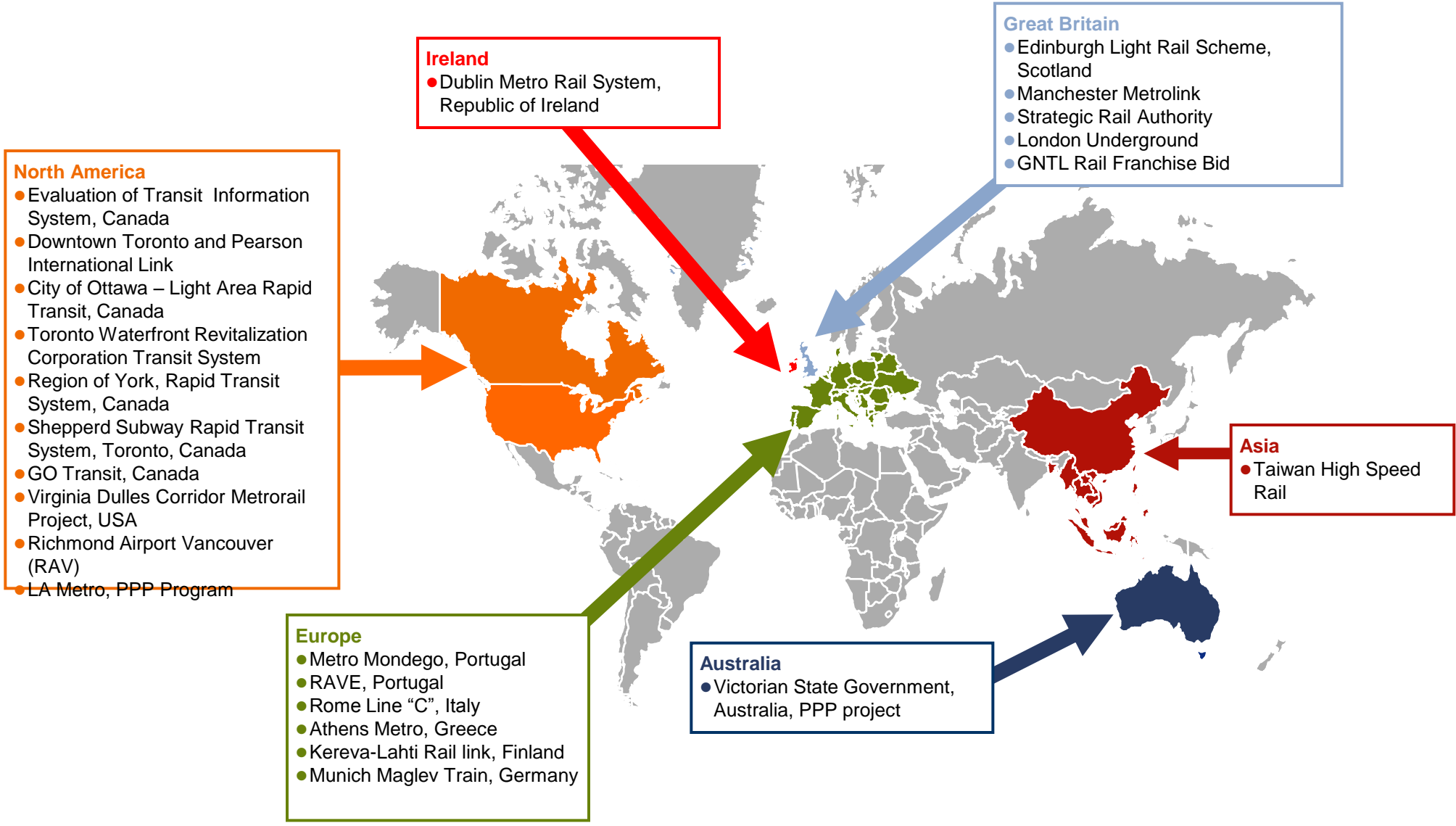
<b>Project</b>	<ul style="list-style-type: none"> <li>● Metro North, Dublin</li> </ul>
<b>Project Scope</b>	<ul style="list-style-type: none"> <li>● Urban light rail linking the North of Dublin to Dublin Downtown through the airport</li> <li>● 12 miles, approximately 8 of which under ground</li> </ul>
<b>Project Status</b>	<ul style="list-style-type: none"> <li>● Currently in the final stages of procurement; 4 bidders originally submitted proposals and 2 consortia have been short-listed to the BAFO stage</li> </ul>
<b>Commercial Structure</b>	<ul style="list-style-type: none"> <li>● PPP structure (Construction Period plus 25 year concession)</li> <li>● Contract structure includes one contract to design, build, finance and maintain the infrastructure and the rolling stock and a separate contract for the operation of the rail system.</li> <li>● The project utilizes an Availability Payment mechanism that was designed around the innovative contract structure to maximize the project bankability; it includes two separate payment mechanisms for the Infrastructure and the Operator</li> </ul>
<b>Infrastructure Payment Mechanism</b>	<ul style="list-style-type: none"> <li>● The Contractor is entitled to Capital Contribution Payments during the Construction Period</li> <li>● The Contractor is entitled to receive the following payments following commencement of operations: <ul style="list-style-type: none"> <li>– A Base Availability Payment</li> <li>– An Operational Flexibility Payment to compensate for rolling stock and infrastructure maintenance if RPA request higher service patterns than base</li> <li>– A specific payment in relation to energy costs</li> </ul> </li> <li>● The Availability Payment is subject to deductions for service failures</li> </ul>
<b>KPMG role</b>	<ul style="list-style-type: none"> <li>● KPMG is the financial adviser to Railway Procurement Agency, the public sponsor of the project</li> <li>● KPMG was directly involved in the development the project contractual approach and in designing the innovative Availability payment mechanisms</li> </ul>

# Additional Considerations

- **Service level requirements need to be defined early in the project lifecycle**
  - Need to be in line with Public Sector objectives
  - Drive Private Sector behavior (incentive vs. penalties)
- **Availability Payment mechanisms need to be transparent, legally enforceable, and practical**
- **Contract monitoring and administration**
  - Public Sponsor has oversight and monitoring role
  - The Private Sector sponsor can self regulate
  - Performance requirements need to include reporting and self-regulation

# KPMG in Infrastructure

## Extensive global experience in transit



# Contact Details

## Ed Crooks

Managing Director, KPMG

Global Infrastructure and Projects Group

Tel: 571-226-7222

E-mail: [ecrooks@kpmg.com](mailto:ecrooks@kpmg.com)

## Kurt Ramey

Partner, KPMG Advisory

Tel: 213-955-8348

E-mail: [kramey@kpmg.com](mailto:kramey@kpmg.com)